GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4211
ANSWERED ON:04.05.2007
SIMPLIFICATION OF NORMS FOR FOREIGN INVESTORS
Chowdhury Shri Adhir Ranjan;Nikhil Kumar Shri

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has asked the Securities and Exchange Board of India (SEBI) to simplify the norms for investment through sub-accounts;

(b) if so, the details thereof;

(c) whether a number of international investors had conveyed to the Government their preference for the Participatory Note (PN) route to avoid the compliance and certification costs in their home countries;

(d) if so, the details thereof and the reasons therefor; and

(e) the reaction of the Government thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) No, Sir.

(b) Does not arise in view of (a) above.

(c) to (e): No, Sir. However, the Securities and Exchange Board of India (SEBI) has observed from the reports being filed with them that participatory notes (PNs) are issued by large financial sector conglomerates like Merrill Lynch, Morgan Stanley, Goldman Sachs etc. PNs are used as an alternative to sub-accounts by ultimate investors generally based on considerations related to transactions costs and recordkeeping overheads.

As per information available with the SEBI, the notional value of PNs has increased from Rs. 1,17,325 crore in January 2006 to Rs. 2,02,487 crore in January 2007. The assets under management of Foreign Institutional Investors (FIIs) increased from Rs. 3,84,491 crore to Rs. 5,81,087 crore during this period. The notional value of PNs as a percentage of assets under management of FIIs has increased from 30.5% to 34.8% during this period.

Government, the Reserve Bank of India (RBI) and the SEBI have framed the policy for participation by FIIs with adequate safeguards in place to guard against any possible misuse of this avenue of investment. The issuance of PNs by SEBI registered FIIs is within the ambit of SEBI`s FII regulations. These regulations require that FIIs can issue PNs only to regulated entities. FIIs registered with SEBI that issue PNs are required to submit a monthly report in a prescribed format. The policy for participation by FIIs is reviewed continuously by Government, RBI and SEBI taking into account inputs/concerns received from various sources.